B4750-2 11/20/82

Economic Outlook

Irving Trust

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Economic Research & Planning Division

November 1982

The long-awaited recovery is still being awaited. Although it is now possible to point to a few favorable economic statistics, the general tenor of the economy remains weak. Despite continued declines in the industrial sector, real GNP will probably register a small increase in the current quarter after showing little change in the third quarter. General business conditions are expected to show more decisive improvement during the first quarter of next year, with real GNP increasing at a moderate pace throughout 1983.

Industrial production and payroll employment continue to fall, with little evidence of abatement. The housing market, however, is beginning to show some signs of life, an encouraging development since any general recovery will likely be led by improvement in consumer spending and home sales. The faint increases in retail sales have been concentrated in auto sales, which have been supported by various incentives programs. The lackluster performance of nonauto retail sales can be partially traced to a smaller-than-expected rise in real disposable personal income.

Real disposable personal income increased at only a 2.3% annual rate in the third quarter following a 3.7% increase in the second quarter. Such a modest increase was surprising in view of July's tax cut and increase in Social Security benefits. Part of the problem was that rapid escalation of gas and electricity prices--12.5% at an annual rate--masked the general moderation in inflation in the consumer sector. More fundamental, however, was the sharp drop in payroll employment during the third quarter. The associated drops in income, as well as the sharply reduced level of employment since the beginning of the recession, have substantially offset and diluted the aggregative thrust of the tax cuts.

It is clear, then, that the employment situation must stabilize for the recovery to begin. The signs here are mixed. Initial claims for unemployment insurance have begun to fall but remain at a high level. Moreover, it appears that inventories in general are still undesirably high relative to sales, suggesting that production (and hence employment) will continue to be restrained for a few more months, although there is some indication that the inventory situation is coming under control. For example, manufacturers' inventories have fallen steadily since April, with September showing a substantial 0.8% decline.

The declines in interest rates since last July have been crucial for economic recovery, but even here the outlook is cloudy. Despite these declines, real interest rates remain high enough to delay the recovery. Our view is that the economy is still so weak that there is sufficient slack to minimize the risks of reigniting inflation if further moderate easing actions are undertaken. As a result, we think a further modest decline in rates is warranted and likely. Nevertheless, some analysts still find the recent explosive growth in the various monetary aggregates--despite expected churning in deposits as "all-savers" certificates mature--sufficient reason to forestall further rate declines. It will be interesting to see how the Federal Reserve grapples with this dilemma.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual				Forecast				Actual	Forecast	
	1982			1982	1983				1980-	1981-	1982-
	I	II	III	IV	I	II	III	IV	1981	1982	1983
Gross National Product	-1.0	6.8	6.2	7.2	8.9	9.9	9.2	9.6	11.6	4.5	8.4
Real GNP	-5.1	2.1	0.8	2.0	3.7	4.5	3.8	4.0	1.9	-1.5	3.1
GNP Price Deflator	4.3	4.6	5.4	5.1	5.0	5.2	5.2	5.4	9.4	6.1	5.1

	Actual	Forecast	Actual	Forecast	
	1982:III	1982: IV	1980-1981	1981-1982	1982-1983
Consumer Spending	8.8%	9.4%	10.6%	7.0%	8.7%
Durable Goods	-0.2	5.3	9.4	2.6	8.2
Nondurable Goods	8.6	8.0	9.6	4.2	8.3
Services	11.4	11.5	11.7	10.6	9.2
Business Capital Spending	-11.5	1.5	12.0	0.7	4.4
Structures	-8.3	4.6	17.4	9.4	4.2
Equipment	-13.7	-0.4	8.9	-4.6	4.5
Residential Investment	7.9	15.0	1.7	-7.7	22.0
			1981	1982	1983
Change in Inventories	$-0.5b.	$-2.0b.	$20.5b.	$-13.6b.	$13.0b.
Net Exports of Goods and Services	$13.2b.	$12.0b.	$26.1b.	$22.9b.	$13.2b.
			1980-1981	1981-1982	1982-1983
Government Purchases	12.8%	4.4%	10.9%	7.6%	5.0%
Federal	23.5	2.0	16.1	10.4	4.5
Defense	18.1	4.4	17.0	15.8	5.6
Other	38.2	-4.3	14.3	-0.8	1.9
State & Local	6.4	6.2	7.9	5.8	5.3
Corporate Profits Before Tax	-16.8*F	-5.5*	-4.2	-20.1	19.0
Corporate Profits After Tax	-12.1*F	-3.5*	-4.4	-16.6	19.0
Plant and Equipment Expenditures	-7.0F	4.0	8.7	0.2	4.0
Real Final Sales#	-0.6	2.9	1.0	-0.6	2.3
Real Disposable Personal Income	2.3	0.7	2.5	1.3	2.3

Economic Indicators	Recent Data			Actual	Forecast	
	July	Aug.	Sept.	1980-1981	1981-1982	1982-1983
Consumer Price Index**	7.2%	3.6%	2.4%	8.9%	5.4%	5.0%
Producer Price Index for Finished Goods**	7.2	7.2	-1.2	7.0	3.7	5.0
Industrial Production	1.2	-3.6	-8.4	2.9	-8.1	2.4
Retail Sales##	1.6	-1.1	0.6	9.4	2.7	8.3
				1981	1982	1983
Auto Sales (millions of units, a.r.)	7.4	7.6	8.3	8.5	7.9	9.0
Housing Starts (millions of units, a.r.)	1.19	1.00	1.15	1.08	1.04	1.32
Unemployment Rate	9.8	9.8	10.1	7.6	9.7	9.7
Merchandise Trade Deficit (a.r.)	$29.1b.	$85.0b.	$50.3b.	$39.7b.	$44.0b.	$70.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

November 16, 1982

#GNP less change in inventories, both in real terms.
##Monthly percent changes are not annualized.
*Year-over-year percent changes.
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$b. = billions a.r. = annual rate F = Forecast

B4750-2
12/21/82

Economic Outlook

Irving Trust

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Economic Research &
Planning Division

December 1982

The general assessment today that recovery will be evident in the spring has a disquietingly familiar ring--it's what people were hearing this time a year ago. Much has happened during the past year, however, to make it more likely that the forecast will be realized this time around. Both interest rates and inflation rates have fallen, while the stock market has rallied sharply--a prerequisite for any economic upturn. Business conditions are still quite weak, and the possibility of yet another round of production cutbacks and layoffs cannot be dismissed. Nevertheless, recent developments hint at increases in output within the next few months. Real GNP in 1983 is expected to rise 2.8% after falling 1.7% in 1982. Even with this improved situation, however, the unemployment rate could remain at double-digit levels throughout next year.

Auto sales in November provided dramatic evidence of the responsiveness of some sectors of the economy to lower interest rates. Spurred by 10.75%-10.9% financing on 1982 models, domestic sales totaled 6.8 million units at an annual rate, the highest level since August 1981. Sales of 1983 models also began to show signs of life. As a result, dealer inventories were brought down to more comfortable levels after becoming bloated during the summer. Some major nonauto retailers also reported better-than-expected sales in November, while housing permits have continued to rise sharply. In addition, initial claims for unemployment insurance are now lower than this summer's distressingly high levels, and the Business Week index has trended upward in recent weeks. Granted, this evidence is far from definitive, but these are the types of developments one would expect near a turning point.

The overall outlook, then, is that industrial production will probably hit bottom in coming months, and a subdued economic recovery will ensue, led by the housing and consumer sectors. Inflation will remain near 5%. Short-term interest rates will probably drop 50-100 basis points by the end of the first quarter and then stabilize (provided that the economy seems to be improving by then), with an upward blip in rates likely during the year as the Fed signals to market participants that it is still concerned about inflation. Real interest rates will remain high by historical standards and cause the recovery to be relatively sluggish.

Respectable gains in productivity will likely be evident as a result of concerted efforts in this area at all levels of management. (Even with virtually no change in output in the third quarter, productivity rose at a surprisingly strong 4% annual rate.) The increases in output and productivity along with moderation in labor costs will result in about a 23% gain in overall corporate profits. Of course, some industries, such as capital goods producers and metals producers, will still find the going rough. Moreover, the merchandise trade deficit will likely show substantial deterioration as financial constraints on LDCs and the lagged effect of a strong dollar curtail U.S. exports, while imports rise along with overall consumer demand. In sum, the outlook is for an improving but subdued economic environment in the year ahead with inflation remaining at a relatively low rate and with lots of room for an extended economic expansion.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual				Forecast				Actual	Forecast	
	1982			1982	1983				1980-	1981-	1982-
	I	II	III	IV	I	II	III	IV	1981	1982	1983
Gross National Product	-1.0	6.8	4.7	6.2	8.9	9.9	9.2	9.6	11.6	4.2	8.0
Real GNP	-5.1	2.1	0.0	1.0	3.7	4.5	3.8	4.0	1.9	-1.7	2.8
GNP Price Deflator	4.3	4.6	4.7	5.1	5.0	5.2	5.2	5.4	9.4	6.0	5.1

	Actual	Forecast	Actual	Forecast	
	1982:III	1982: IV	1980-1981	1981-1982	1982-1983
Consumer Spending	8.4%	9.3%	10.6%	7.0%	8.4%
Durable Goods	-1.0	5.3	9.4	2.5	8.0
Nondurable Goods	7.0	7.9	9.6	4.0	7.8
Services	12.0	11.5	11.7	10.7	9.1
Business Capital Spending	-11.9	-7.2	12.0	0.1	4.4
Structures	-12.0	-4.8	17.4	8.2	4.2
Equipment	-11.8	-8.8	8.9	-4.8	4.5
Residential Investment	7.0	18.0	1.7	-7.6	22.0
			1981	1982	1983
Change in Inventories	$2.9b.	$-2.0b.	$20.5b.	$-12.7b.	$13.0b.
Net Exports of Goods and Services	$2.7b.	$4.0b.	$26.1b.	$18.2b.	$-11.0b.
			1980-1981	1981-1982	1982-1983
Government Purchases	12.1%	4.6%	10.9%	7.5%	7.2%
Federal	21.4	2.7	16.1	10.1	10.4
Defense	14.3	3.1	17.0	15.2	14.0
Other	41.1	1.1	14.3	-0.1	1.6
State & Local	6.5	6.0	7.9	5.9	5.1
Corporate Profits Before Tax	-22.9*	-12.7*	-4.2	-23.3	23.9
Corporate Profits After Tax	-21.0*	-13.9*	-4.4	-21.3	22.6
Plant and Equipment Expenditures	-8.9	-4.0	8.7	-0.5	3.0
Real Final Sales#	-1.8	1.7	1.0	-0.8	1.9
Real Disposable Personal Income	2.3	0.7	2.5	1.3	2.3

Economic Indicators	Recent Data			Actual	Forecast	
	Aug.	Sept.	Oct.	1980-1981	1981-1982	1982-1983
Consumer Price Index**	3.6%	2.4%	6.0%	8.9%	5.2%	5.0%
Producer Price Index for Finished Goods**	7.2	-1.2	6.0	7.0	3.7	5.0
Industrial Production	-3.6	-8.4	-9.6	2.9	-8.1	2.4
Retail Sales##	-1.1	0.6	0.6	9.4	2.8	8.3
				1981	1982	1983
Auto Sales (millions of units, a.r.)	7.6	8.3	7.9	8.5	7.9	8.9
Housing Starts (millions of units, a.r.)	1.03	1.11	1.12	1.08	1.03	1.32
Unemployment Rate	9.8	10.1	10.4	7.6	9.7	10.3
Merchandise Trade Deficit (a.r.)	$85.0b.	$50.3b.	$63.9b.	$39.7b.	$44.0b.	$70.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

#GNP less change in inventories, both in real terms.
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$b. = billions a.r. = annual rate F = Forecast

December 10, 1982

B4750-2
2/2/83

Economic Outlook

Irving Trust

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Economic Research &
Planning Division

January 1983

The evidence continues to mount that the economy is at a turning point. Although recent economic reports are not uniformly encouraging, the balance is clearly shifting in favor of improving economic conditions. Our forecast calls for a 2.4% increase in real GNP in 1983.

Auto sales have continued to benefit from lower interest rates. Car sales showed an improving pattern in November and December and have remained above 6 million units at an annual rate in January as a result of manufacturer-sponsored 11.9% financing, which will be available through the first quarter. Since dealers' inventories have now been reduced to comfortable levels, the auto makers have scheduled substantial increases in production in the current quarter. In contrast, car production was cut sharply following a disturbing buildup in inventories during the summer. We expect domestic auto sales to total about 6.6 million units in 1983, versus 5.8 million units in 1982.

The increases in auto production have already contributed to an apparent bottoming out in overall industrial production. Industrial production fell only 0.1% in December, following declines of 0.7% in November and 1.1% in October. Moreover, housing starts have also responded to lower interest rates, as starts in November reached the highest level in almost two years. As for the employment scene, initial claims for unemployment insurance remain significantly below last summer's record-high levels. In addition, the substantial across-the-board cuts in business inventories in November suggest that firms are making progress in bringing their inventories into better alignment with sales. Taken together, these developments indicate that the recession has finally begun to draw to a close.

On the negative side, it is unlikely that production of business equipment will display significant improvement in coming months. Capacity utilization is now at the lowest rate since official statistics were first gathered. Even with declines in interest rates, businessmen are more likely to focus their attention on balance-sheet improvement than on capacity expansion. The guarded outlook for capacity spending, as well as probable further enlargement of the merchandise trade deficit, will be partially responsible for keeping growth in 1983 below normal for a post-recession period. As a further consequence, the unemployment rate will likely still be near 10% by year-end.

In some quarters, the prospects of improving economic conditions seem to have re-awakened latent fears about a resumption of inflationary pressures. Nevertheless, it is highly unlikely that inflation will accelerate with the general tone of the economy still so weak. Even with considerably more rapid growth than we are projecting, the economy will have substantial excess capacity for several years to come. The consumer price index in 1983 will reflect a few mandated price increases arising from higher excise taxes on gasoline, telephone service and cigarettes. These developments will be more than offset, however, by the disinflationary forces brought about by past Federal Reserve actions and by the Fed's continued diligence even as it tries to promote economic recovery. We expect consumer prices to rise no more than 5% from December 1982 to December 1983, compared to 1982's 4.7% increase.

Bernard Schoenfeld

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Economic Forecast

Percent Changes at Annual Rates

	Actual 1982				Forecast 1983				Actual	Forecast
	I	II	III	IV	I	II	III	IV	1980-1981	1981-1982	1982-1983
Gross National Product	-1.0	6.8	5.8	1.7	9.5	9.0	8.7	9.2	11.6	4.1	7.2
Real GNP	-5.1	2.1	0.7	-2.5	4.6	4.5	3.8	4.0	1.9	-1.8	2.4
GNP Price Deflator	4.3	4.6	5.0	4.3	4.8	4.3	4.7	5.0	9.4	6.0	4.6

	Actual 1982: IV	Forecast 1983: I	Actual 1980-1981	Actual 1981-1982	Forecast 1982-1983
Consumer Spending	10.1%	7.9%	10.6%	7.0%	8.2%
Durable Goods	20.4	4.5	9.4	3.5	7.1
Nondurable Goods	5.3	5.7	9.6	3.8	5.9
Services	11.5	10.5	11.7	10.6	10.2
Business Capital Spending	-8.5	-4.0	12.0	0.4	-1.4
Structures	-2.5	-3.0	17.4	9.3	0.4
Equipment	-12.7	-4.6	8.9	-4.9	-2.6
Residential Investment	25.5	22.0	1.7	-8.7	18.9
			1981	1982	1983
Change in Inventories	$-38.5b.	$-9.2b.	$20.5b.	$-21.4b.	$7.5b.
Net Exports of Goods and Services	$-6.9b.	$-10.4b.	$26.1b.	$16.5b.	$-17.0b.
			1980-1981	1981-1982	1982-1983
Government Purchases	15.6%	3.0%	10.9%	8.4%	7.7%
Federal	29.1	4.4	16.1	12.4	11.6
Defense	14.3	12.0	17.0	16.1	14.8
Other	70.6	-10.6	14.3	4.8	4.9
State & Local	7.2	2.0	7.9	5.9	5.2
Corporate Profits Before Tax	-12.6*F	17.0*	-4.2	-23.2F	24.1
Corporate Profits After Tax	-13.8*F	15.2*	-4.4	-21.2F	22.7
Plant and Equipment Expenditures	-4.0F	-1.9	8.7	-0.5F	-1.0
Real Final Sales#	3.1	0.7	1.0	-0.6	1.6
Real Disposable Personal Income	-0.2	1.5	2.5	1.1	2.8

Economic Indicators	Recent Data Sept.	Oct.	Nov.	Actual 1980-1981	Actual 1981-1982	Forecast 1982-1983
Consumer Price Index**	2.4%	6.0%	1.2%	8.9%	4.6%F	4.9%
Producer Price Index for Finished Goods**	-1.2	6.0	7.2	7.1	3.5	4.9
Industrial Production	-9.6	-13.2	-8.4	2.9	-8.2	2.2
Retail Sales##	0.9	1.1	2.6	9.4	3.0	8.0
				1981	1982	1983
Auto Sales (millions of units, a.r.)	8.3	7.9	9.4	8.5	8.1	9.0
Housing Starts (millions of units, a.r.)	1.13	1.13	1.40	1.08	1.06	1.40
Unemployment Rate	10.2	10.5	10.7	7.6	9.7	10.5
Merchandise Trade Deficit (a.r.)	$50.3b.	$63.9b.	$49.1b.	$39.9b.	$43.5b.F	$73.2b.

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January 20, 1983

#GNP less change in inventories, both in real terms.
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$b. = billions a.r. = annual rate F = Forecast

B4250-2
3/7/83

Economic Outlook

Irving Trust

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Economic Research &
Planning Division

March 1983

The uncertainty regarding the economic outlook is no longer when the recovery will start but how vigorous it will be. The recovery began in January on a positive note, with both employment and production rising sharply. Substantial increases in housing starts, nonauto retail sales, and new factory orders for durable goods hint at the possibility of a stronger rebound than we expected only a few months ago. Nevertheless, vestiges of the recent recession are still quite apparent, and the prospect that real interest rates will remain relatively high suggests that the recovery will prove moderate by past standards--not as anemic as some forecasts suggest, but less robust than most prior recoveries. Real GNP is expected to rise 4.5% from the fourth quarter of 1982 to the fourth quarter of 1983, resulting in a 2.7% increase in 1983 relative to the average 1982 level.

The record amount of inventory liquidation that occurred during the fourth quarter produced a 1.9% drop (at an annual rate) in real GNP. In contrast, real final sales--that is, real GNP excluding the change in inventories--rose at a 4.1% rate. Merely a slower rate of inventory liquidation in the first quarter will result in a substantial boost to real GNP. Consequently, even with only a projected 1.4% rise in real final sales in the current quarter, real GNP is expected to increase at a 4.9% rate--and that is a conservative estimate.

With such a large drop in inventories during the fourth quarter, a case could be made that the recovery will be stronger than we are projecting. Deep cuts in inventories, however, do not guarantee rapid growth in following periods. For example, although inventories were reduced sharply in the first quarter of last year, the recession continued as final sales remained weak, largely as a result of continued high real interest rates. The economy is out of recession now, and real interest rates are much lower than a year ago, though still higher than at comparable stages of prior recessions. The likely consequence is that higher than normal real interest rates will lead to below normal economic growth.

Enlargement of the merchandise trade deficit will also act as a drag on the economy. U.S. merchandise exports weakened dramatically last year, falling 14.8% from the fourth quarter of 1981 to the fourth quarter of 1982. The dollar has been holding firm this year after weakening toward the end of last year, but even further moderate depreciation will hardly offset the substantial appreciation of the last few years--46.8% on a trade-weighted basis from July 1980 to November 1982. As a result, export-sensitive industries in the United States will still be adversely affected by a strong dollar and relatively weak demand abroad. Although nonoil imports will likely rise with the general economic recovery, declines in oil prices will partially offset these factors and, of course, contribute to overall price moderation. A merchandise trade deficit of about $68 billion is expected this year, compared to a $42.7 billion deficit last year.

The list of negative factors in the outlook could go on, but the consequences of the positive factors, such as substantial pent up consumer demand, are likely to become increasingly evident in coming months as the recovery becomes more firmly established.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual				Forecast					Actual	Forecast	
	1982							1983	1984	1981-	1982-	1983-
	I	II	III	IV	I	II	III	IV	I	1982	1983	1984
Gross National Product	-1.0	6.8	5.8	1.7	9.1	8.6	9.3	8.3	8.5	4.1	7.0	9.5
Real GNP	-5.1	2.1	0.7	-1.9	4.9	4.6	4.8	3.5	3.5	-1.8	2.7	4.5
GNP Price Deflator	4.3	4.6	5.0	3.7	4.0	3.8	4.3	4.6	4.8	6.0	4.1	4.8

	Actual	Forecast	Actual	Forecast	
	1982: IV	1983: I	1981-1982	1982-1983	1983-1984
Consumer Spending	9.4%	9.0%	6.9%	8.4%	9.0%
Durable Goods	19.4	5.9	3.4	7.5	9.2
Nondurable Goods	3.6	7.9	3.7	5.7	6.4
Services	11.7	10.6	10.6	10.7	10.9
Business Capital Spending	-8.2	-4.9	0.4	-2.6	9.2
Structures	-5.8	-2.6	9.0	-1.1	7.9
Equipment	-10.0	-6.5	-4.7	-3.6	10.1
Residential Investment	25.5	38.2	-8.7	24.9	21.6
			1982	1983	1984
Change in Inventories	$-44.2b.	$-17.5b.	$-22.8b.	$-0.7b.	$11.4b.
Net Exports of Goods and Services	$0.8b.	$-10.4b.	$18.5b.	$-14.2b.	$-19.2b.
			1981-1982	1982-1983	1983-1984
Government Purchases	16.3%	2.4%	8.5%	7.0%	8.1%
Federal	32.5	-1.0	12.6	10.2	11.9
Defense	15.5	2.3	16.2	13.1	15.0
Other	81.0	-7.9	5.2	3.8	4.4
State & Local	6.4	4.8	5.9	4.8	5.4
Corporate Profits Before Tax	-17.8*F	12.9*	-24.4F	20.2	17.6
Corporate Profits After Tax	-20.2*F	11.2*	-22.7F	19.3	17.6
Plant and Equipment Expenditures	-4.0F	-1.6	-0.5F	-1.0	8.2
Real Final Sales#	4.1	1.4	-0.5	2.1	4.4
Real Disposable Personal Income	0.9	1.7	1.2	3.2	4.4

Economic Indicators	Recent Data			Actual	Forecast	
	Oct.	Nov.	Dec.	1981-1982	1982-1983	1983-1984
Consumer Price Index**	7.2%	4.8%	3.6%	5.0%	4.2%	4.8%
Producer Price Index for Finished Goods**	6.0	7.2	1.2	3.5	3.2	4.8
Industrial Production	-13.1	-7.7	1.8	-8.2	2.3	8.3
Retail Sales##	1.1	2.6	-0.4	3.0	6.0	7.3
				1982	1983	1984
Auto Sales (millions of units, a.r.)	7.9	9.4	8.7	8.1	8.9	9.6
Housing Starts (millions of units, a.r.)	1.14	1.36	1.26	1.06	1.50	1.75
Unemployment Rate	10.5	10.7	10.8	9.7	10.1	9.3
Merchandise Trade Deficit (a.r.)	$63.9b.	$49.1b.	$40.4b.	$42.7b.	$68.0b.	$75.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

#GNP less change in inventories, both in real terms.
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$b. = billions a.r. = annual rate F = Forecast

*Year-over-year percent changes.
**Annual percent changes are December to December (not seasonally adjusted).

February 25, 1983

B4750-2
4/28/83

Economic Outlook

Irving Trust

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Economic Research & Planning Division

April 1983

The recovery has not gotten off to a rousing start. The economy seemed to lose momentum in February after solid gains in January, but further improvement in March is evident. Real GNP will show an annualized increase of at least 4% in the first quarter and by the fourth quarter should be 4.5% higher than the year-earlier period.

Aside from the housing sector, which is undergoing a dramatic revival, the recovery was rather listless in February. After an impressive 1.3% gain in January, industrial production edged up only 0.3% in February, while nonauto retail sales were only 0.4% above last November's level. What gives?

Mixed signals are common near an economic turnaround, but the widely discussed problems affecting the economy--high real interest rates, a high unemployment rate, strains in corporate liquidity, and large trade deficits--are still taking their toll. Despite these problems, however, the recovery is progressing. Consumer confidence is rising, while inventories have been drawn down so low in many industries that further increases in production are assured. Moreover, payroll employment and average weekly hours both rose in March after declining in February.

The rapid growth in the monetary aggregates over the past several months, a large part of which is due to the new money market accounts, has caused concern that the Federal Reserve may be forced to tighten further, while some analysts are worried that the Fed may not take sufficiently aggressive action to restrain money growth. The Fed has recognized that "an unusual degree of judgment is required in interpreting the performance of the money aggregates" (FOMC Minutes, February 8-9). It thus has allowed itself wide discretion in determining its policy emphasis between nurturing the recovery and meeting its monetary growth targets.

Our view is that the Fed may let rates rise a bit more during the summer once the recovery is on a firmer footing. This will not be enough to get the money supply comfortably under control--otherwise the recovery might be jeopardized--but enough to indicate that the Fed wants to avoid excessive money creation. Later this year or early in 1984, the recovery may appear to falter. In this event, the Fed will likely allow rates to fall again in order to sustain the economic expansion.

Some of the pressure has been taken off the Fed in that inflation seems amazingly well under control. Although the February CPI's decline of 0.2% cannot be considered representative, since it was the result of the weak oil market, the prospects are nevertheless favorable for a low rate of inflation: a little below 4% this year, a little above that next year.

One factor that has strongly influenced inflation rates in the past has been unit labor cost. It showed dramatically slower increases throughout 1982 and will likely rise only about 3%-4% in 1983 and 1984, compared to increases of about 11% in 1979 and 1980. Overall increases in hourly compensation will be relatively modest as a result of the recent moderation shown in negotiated labor settlements, while productivity growth will likely rebound cyclically.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual						Forecast			Actual	Forecast	
	1982	1983							1984	1981-	1982-	1983-
	IV	I	II	III	IV	I	II	III	IV	1982	1983	1984
Gross National Product	2.6	7.3	8.6	9.9	7.9	6.7	11.0	9.5	10.6	4.1	6.8	8.8
Real GNP	-1.1	4.4	4.6	5.3	3.5	2.5	6.3	4.9	5.7	-1.7	2.9	4.4
GNP Price Deflator	3.7	2.8	3.8	4.3	4.3	4.1	4.4	4.4	4.6	6.0	3.8	4.3

	Actual	Forecast	Actual	Forecast	
	1982: IV	1983: I	1981-1982	1982-1983	1983-1984
Consumer Spending	9.3%	4.9%	6.9%	7.4%	8.4%
Durable Goods	20.6	7.5	3.5	7.7	8.6
Nondurable Goods	3.9	1.2	3.8	4.3	5.9
Services	10.9	7.2	10.5	9.7	10.3
Business Capital Spending	-6.5	-2.8	0.5	-1.5	8.5
Structures	-4.7	-2.8	9.1	-0.8	8.1
Equipment	-8.0	-2.8	-4.6	-2.0	8.8
Residential Investment	33.7	52.6	-8.3	31.9	17.7
			1982	1983	1984
Change in Inventories	$-48.3b.	$-25.0b.	$-23.8b.	$-2.8b.	$6.9b.
Net Exports of Goods and Services	$9.1b.	$6.0b.	$20.5b.	$-6.5b.	$-10.0b.
			1981-1982	1982-1983	1983-1984
Government Purchases	16.3%	1.1%	8.5%	6.6%	7.8%
Federal	34.1	-3.1	12.7	10.1	11.8
Defense	15.3	6.9	16.2	13.1	15.0
Other	88.5	-22.1	5.5	3.3	3.8
State & Local	5.5	4.3	5.8	4.3	5.0
Corporate Profits Before Tax	-17.4*	10.2*	-24.3	19.4	18.4
Corporate Profits After Tax	-17.6*	10.2*	-22.1	19.6	18.4
Plant and Equipment Expenditures	-27.9	-1.0	-1.6	-2.9	8.2
Real Final Sales#	5.4	1.2	-0.5	2.1	4.1
Real Disposable Personal Income	0.3	1.4	1.1	2.9	4.5

Economic Indicators	Recent Data			Actual	Forecast	
	Dec.	Jan.	Feb.	1981-1982	1982-1983	1983-1984
Consumer Price Index**	-3.6%	2.4%	-2.4%	3.9%	3.8%	4.2%
Producer Price Index for Finished Goods**	2.4	-12.0	1.2	3.5	3.3	4.2
Industrial Production	2.7	16.2	3.6	-8.2	2.8	8.0
Retail Sales##	0.0	-0.4	-0.4	2.7	5.2	7.0
				1982	1983	1984
Auto Sales (millions of units, a.r.)	8.7	8.7	8.4	8.1	8.9	9.6
Housing Starts (millions of units, a.r.)	1.28	1.71	1.76	1.06	1.65	1.85
Unemployment Rate	10.8	10.4	10.4	9.7	10.1	9.3
Merchandise Trade Deficit (a.r.)	$38.4b.	$35.5b.	$43.0b.	$42.4b.	$-61.5b.	$-68.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

April 5, 1983

#GNP less change in inventories, both in real terms.
##Monthly percent changes are not annualized.
*Year-over-year percent changes.
**Annual percent changes are December to December (not seasonally adjusted).
$b. = billions a.r. = annual rate F = Forecast

Economic Outlook

5/25/83
B4750-2

Irving Trust

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Economic Research &
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May 1983

The economy is perking up, not dramatically, but enough to confirm that the recovery is becoming more firmly established. Nonfarm payroll employment increased by a respectable 0.3% in April, while domestic auto sales showed slight improvement. Moreover, nonauto retail sales, which originally showed a worrisome 0.3% decline in March, were recently revised to show an increase of 0.5%, while an encouraging rise of 0.7% was reported for April. In general, the recovery is proceeding at a moderate pace, although exceptions--both in terms of protracted weakness (some capital goods producers) and surprising buoyancy (residential construction)--are quite evident. The unemployment rate is expected to average 10% this year and dip below 9% by the end of 1984.

Real GNP rose at a 3.1% annual rate in the first quarter, less than we had expected. The slower than anticipated growth was the result of two factors. First, Commodity Credit Corporation purchases fell more sharply than anticipated and produced a big drop in total Federal government purchases. Second, because of shifts in weights, the implicit price deflator for GNP rose 5.8% at an annual rate, more than 2 percentage points higher than any other broad price index. If this sounds technical, that's the point: The economy did better than is indicated by the raw numbers. We continue to expect real GNP to rise a moderate 4.5% from the fourth quarter of last year to the fourth quarter of this year, with growth relatively strong in the second and third quarters.

Residential construction has turned around dramatically during the past year and is now at the forefront of the recovery. Housing starts in March were 1.6 million units at an annual rate. In comparison, in November 1981, housing starts sank to 839,000, the lowest level since the mid-1940s. In the fall of 1981, with a conventional mortgage at 18.5%, the average monthly mortgage payment on a new home was about $813. Today, 12 3/4% financing brings the average payment to about $600, much more closely within the reach of most families, though still relatively high. The extended period of high interest rates has produced considerable pent-up demand for housing, and this demand is now surfacing. We expect housing starts to total 1.65 million units this year and 1.85 million units in 1984. The effect of the rebound in housing on the overall economy is considerable. The largest gain among the major categories of industrial production in March was in construction supplies. Moreover, spending on such items as furniture and appliances has begun to revive as a result of the improvement in the housing market and the more stable employment picture.

The broad features of the economic outlook are now falling into place. The recovery is being led by housing and, to a lesser extent, by consumer spending. The personal income tax cuts in July will provide more visible stimulus to the economy this year than last year, since they will not be negated by a wave of layoffs, as was the case last summer. The slowing in inventory liquidation followed by modest restocking will lead to continued gains in production. The continued strength of the dollar, however, will contribute to marked enlargement of the merchandise trade deficit. This all adds up to a somewhat below average recovery in terms of real growth, but it must be seen in line with the prospect that inflation will remain moderate for the next several years.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual							Forecast	Actual	Forecast	
	1983	1983			1984				1981-	1982-	1983-
	I	II	III	IV	I	II	III	IV	1982	1983	1984
Gross National Product	9.1	9.7	10.5	7.9	6.7	11.0	9.5	10.6	4.1	7.5	9.0
Real GNP	3.1	5.5	5.9	3.5	2.5	6.3	4.9	5.7	-1.7	2.8	4.5
GNP Price Deflator	5.8	4.0	4.3	4.3	4.1	4.4	4.4	4.6	6.0	4.6	4.3

	Actual	Forecast	Actual	Forecast	
	1983: I	1983: II	1981-1982	1982-1983	1983-1984
Consumer Spending	4.6%	8.8%	6.9%	7.7%	8.8%
Durable Goods	7.5	5.4	3.5	8.1	8.6
Nondurable Goods	0.4	6.0	3.8	4.3	7.0
Services	7.3	12.0	10.5	10.3	10.3
Business Capital Spending	1.1	2.0	0.5	-0.4	8.0
Structures	2.3	1.4	9.1	0.6	7.4
Equipment	0.2	2.4	-4.6	-1.2	8.4
Residential Investment	95.5	61.7	-8.3	38.8	16.1
			1982	1983	1984
Change in Inventories	$-28.5b.	$-3.1b.	$-23.8b.	$-2.9b.	$10.0b.
Net Exports of Goods and Services	$16.6b.	$-7.5b.	$20.5b.	$-8.0b.	$-16.8b.
			1981-1982	1982-1983	1983-1984
Government Purchases	-0.8%	7.4%	8.5%	7.8%	7.8%
Federal	-9.4	9.4	12.7	10.6	11.9
Defense	4.9	17.1	16.2	14.2	15.0
Other	-34.9	-7.3	5.5	2.3	3.9
State & Local	5.7	6.0	5.8	5.9	5.0
Corporate Profits Before Tax	5.6*F	14.0*	-24.6	17.7	18.6
Corporate Profits After Tax	5.6*F	12.7*	-22.4	17.8	18.6
Plant and Equipment Expenditures	1.5F	4.1	-1.6	-1.4	8.2
Real Final Sales#	0.9	2.3	-0.5	2.2	4.1
Real Disposable Personal Income	1.8	3.4	1.1	2.9	4.5

Economic Indicators	Recent Data			Actual	Forecast	
	Jan.	Feb.	Mar.	1981-1982	1982-1983	1983-1984
Consumer Price Index**	2.4%	-2.4%	1.2%	3.9%	3.8%	4.2%
Producer Price Index for Finished Goods**	-12.0	1.2	-1.2	3.5	3.3	4.2
Industrial Production	17.8	3.5	13.1	-8.2	2.8	8.0
Retail Sales##	-0.2	-1.2	1.7	2.7	5.5	7.0
				1982	1983	1984
Auto Sales (millions of units, a.r.)	8.7	8.4	8.2	8.1	8.8	9.6
Housing Starts (millions of units, a.r.)	1.69	1.78	1.61	1.06	1.65	1.85
Unemployment Rate	10.4	10.4	10.3	9.7	10.0	9.2
Merchandise Trade Deficit (a.r.)	$42.8b.	$43.0b.	$43.6b.	$42.7b.	$63.0b.	$75.0b.

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May 12, 1983

#GNP less change in inventories, both in real terms.
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$b. = billions a.r. = annual rate F = Forecast

Economic Outlook

6/22/83
B4750-2

Irving Trust

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June 1983

Despite all of the exceptional developments in today's economy--high real interest rates, dramatic changes in financial regulations, striking technological innovations, structural dislocations in employment, etc.--the recovery is turning out to be remarkably normal. The deep cuts in inventories and production in the fourth quarter of last year, along with continued declines in interest rates, led to a turnaround in production and employment in the first quarter. Consumer confidence is now rising sharply as workers are being rehired and layoffs are subsiding, while retail sales have gained upward momentum. As a consequence of these factors, the tax cut, and the abatement of inventory liquidation, real growth in the second and third quarters will be relatively strong, about 5.5%-6.5% at an annual rate. Since this rapid pace cannot be sustained, however, real growth will likely slow for a few quarters thereafter. In general, the economy is following a pattern typical of a moderate recovery and is expected to maintain this course, although the money supply remains a wild card.

Most of the key monthly economic indicators--industrial production, nonfarm employment, retail sales, auto sales, durable goods orders, etc.--have been rising sharply of late, as should be expected at this stage of a business recovery. Nevertheless, since the economic rebound has largely been the result of lower interest rates, a sustained, significant rise in interest rates could snuff out the recovery.

The Federal Reserve is faced with an unenviable policy dilemma. It could take forceful actions to curtail the extremely sharp jump in M1 over the last few weeks, but at the risk of pulling the rug out from under the recovery. It could also choose to ignore the growth in M1 because of unusual special factors, but many financial market participants are by now at least beginning to wonder whether double-digit growth in M1 for so long a period (about a year) can truly be attributed to technical aberrations.

The Fed seems to be attempting to pursue a prudent, cautious approach to slowing growth in M1, with consequent modest firming evident in money market rates. Unless the money supply eventually behaves in a more respectable manner, however, the Fed will find its options increasingly circumscribed by market unease. We expect a further modest increase in rates in coming months--the strains in international financial liquidity are too severe for the Fed to risk a big jump in rates. The anticipated increases in rates will not be so large as to lead to the early demise of the recovery, but they are partly why we have taken the position all along that the recovery will be moderate rather than robust. By this time next year, however, rates would be lower than they are today.

With all of the concern about the sustainability of the recovery, the economy today is similar in some respects to the situation following the 1973-1975 recession, except that there is even more slack now. The expansion that began in 1975 lasted almost five years. In comparison, post-World War II peacetime expansions have lasted about three years on average. It seems likely that as an aftermath of the recent deep and protracted recession the current expansion may prove to be of unusually long duration.

Bernard Schoenfeld

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Economic Forecast

Percent Changes at Annual Rates

	Actual 1983 I	1983 II	1983 III	1983 IV	Forecast 1984 I	1984 II	1984 III	1984 IV	Actual 1981-1982	Forecast 1982-1983	Forecast 1983-1984
Gross National Product	8.3	12.6	10.0	7.6	6.7	10.8	9.4	10.2	4.1	7.8	9.0
Real GNP	2.5	6.3	5.7	3.5	2.5	6.2	4.9	5.5	-1.7	2.7	4.5
GNP Price Deflator	5.7@	5.9@	4.0	4.0	4.1	4.3	4.3	4.5	6.0	4.9	4.3

	Actual 1983: I	Forecast 1983: II	Actual 1981-1982	Forecast 1982-1983	Forecast 1983-1984
Consumer Spending	4.7%	10.9%	6.9%	8.0%	8.7%
Durable Goods	9.0	11.7	3.5	9.3	8.4
Nondurable Goods	0.6	9.6	3.8	4.7	6.7
Services	6.8	11.7	10.5	10.3	10.3
Business Capital Spending	-0.4	5.1	0.5	-0.3	8.0
Structures	-6.2	2.1	9.1	-1.1	7.4
Equipment	3.9	7.2	-4.6	0.3	8.4
Residential Investment	99.4	44.4	-8.3	35.6	13.5
			1982	1983	1984
Change in Inventories	$-37.3b.	$-2.5b.	$-23.8b.	$-6.7b.	$12.0b.
Net Exports of Goods and Services	$19.0b.	$1.7b.	$20.5b.	$-1.0b.	$-10.5b.
			1981-1982	1982-1983	1983-1984
Government Purchases	-0.2%	7.9%	8.5%	7.8%	7.8%
Federal	-6.6	11.1	12.7	11.3	11.9
Defense	7.8	16.7	16.2	15.0	15.0
Other	-32.3	-1.5	5.5	3.2	3.9
State & Local	4.6	5.8	5.8	5.4	5.0
Corporate Profits Before Tax	3.9*	18.9*	-24.6	17.0	20.8
Corporate Profits After Tax	-2.7*	16.3*	-22.4	14.5	22.1
Plant and Equipment Expenditures	-12.3	6.2	-1.6	-2.9	8.2
Real Final Sales#	1.3	1.7	-0.5	2.2	3.9
Real Disposable Personal Income	2.1	3.1	1.1	2.9	4.5

Economic Indicators	Recent Data Feb.	Mar.	Apr.	Actual 1981-1982	Forecast 1982-1983	Forecast 1983-1984
Consumer Price Index**	-2.4%	1.2%	7.2%	3.9%	3.8%	4.2%
Producer Price Index for Finished Goods**	1.2	-1.2	-1.2	3.5	2.8	4.3
Industrial Production	4.8	14.4	25.2	-8.2	4.7	7.8
Retail Sales##	-1.2	1.7	1.7	2.7	6.1	7.9
				1982	1983	1984
Auto Sales (millions of units, a.r.)	8.4	8.2	8.4	8.1	8.8	9.6
Housing Starts (millions of units, a.r.)	1.78	1.63	1.49	1.06	1.65	1.85
Unemployment Rate	10.4	10.3	10.2	9.7	10.0	9.2
Merchandise Trade Deficit (a.r.)	$43.0b.	$43.6b.	$55.2b.	$42.7b.	$63.0b.	$75.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

June 10, 1983

#GNP less change in inventories, both in real terms.
##Monthly percent changes are not annualized.
$b. = billions a.r. = annual rate F = Forecast

*Year-over-year percent changes.
**Annual percent changes are December to December (not seasonally adjusted).
@ Fixed weight price index up 3.2% in 1Q 1983, 3.5% estimated in 2Q 1983.

Economic Outlook

7/18/83

B4750-2

Irving Trust

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Economic Research &
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July 1983

The recovery is progressing at a brisk pace. Retail sales and housing starts rose sharply in May, while domestic auto sales in early June reached their highest level in almost two years. The Administration's flash forecast for real GNP growth in the second quarter is an annualized increase of 6.6%, but the actual figure will probably be somewhat higher. A spurt in real growth following a recession is normal. In the six recoveries from 1949-1979, the first or second quarter showed real GNP growth of at least 6.9% and in half the cases showed growth of 9%-10%. Real GNP is expected to rise at a healthy 5.8% rate in the third quarter and then grow at a slower pace for a few quarters thereafter before picking up speed once again.

The personal income tax cut effective July 1 will contribute to the expected strong growth in the third quarter. The present situation is vastly different from last year, when consumer confidence was sinking and numerous layoffs neutralized much of the stimulative effect of the tax cut. For several months last summer and fall, initial claims for unemployment compensation benefits averaged more than 600,000 per week. Recently, these claims dropped to 400,000, the lowest rate in almost two years. Not surprisingly, recent surveys show that consumer confidence has turned decidedly upbeat.

As was the case last year, the tax cut will not be fully reflected by the change in withholding at higher income levels. For example, this year, with the number of withholding allowances remaining unchanged, the maximum monthly reduction in withholding for a married taxpayer is $93.60, effective for annual incomes of $55,200 or higher. Our rough estimate is that about $5 billion of the $30 billion tax cut (on an annualized basis) is potentially subject to overwithholding. An immediate effect of the tax cut is that the savings rate will rise from an estimated 5.5% in the second quarter to about 5.8% in the third quarter.

All in all, in view of the battered condition of the economy late last year, the economic turnaround this year has been as favorable as could have reasonably been expected. At this point, of the numerous economic variables that measure the health of the economy, very few have <u>not</u> shown striking improvement during the last few months.

One continuing area of concern, however, is that the number of business failures has remained high, averaging 31,000 at an annual rate so far this year versus 25,000 last year, which was the highest level since 1932. It is normal, however, for failures to continue to rise in the early stages of a recovery. Another problem is the weakness in exports and the competitive pressures from imports. This was underscored by May's record annualized $82.9 billion merchandise trade deficit. A record deficit of about $63 billion is expected this year, compared to $43 billion last year. Finally, the excessive growth in M1 may well cause interest rates to move slightly higher for a brief period and take some of the steam out of the recovery. Nevertheless, the overall pattern of economic developments this year confirms that a solid and potentially long-lived business expansion is under way.

Bernard Schoenfeld

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Economic Forecast

Percent Changes at Annual Rates

	Actual 1983 I	1983 II	1983 III	1983 IV	Forecast 1984 I	1984 II	1984 III	1984 IV	Actual 1981-1982	Forecast 1982-1983	Forecast 1983-1984
Gross National Product	8.3	13.3	10.1	7.5	6.7	10.7	9.4	10.3	4.1	7.9	9.0
Real GNP	2.6@	7.0@	5.8	3.5	2.5	6.1	4.9	5.5	-1.7	2.9	4.5
GNP Price Deflator	5.5@	5.9@	4.0	4.0	4.1	4.3	4.3	4.5	6.0	4.8	4.3

	Actual 1983: I	Forecast 1983: II	Actual 1981-1982	Forecast 1982-1983	Forecast 1983-1984
Consumer Spending	4.4%	10.9%	6.9%	8.3%	8.8%
Durable Goods	8.4	21.1	3.5	11.8	8.8
Nondurable Goods	0.9	5.5	3.8	4.6	6.7
Services	6.2	12.7	10.5	10.3	10.3
Business Capital Spending	-1.5	5.3	0.5	-0.5	8.1
Structures	-7.8	2.1	9.1	-1.6	7.5
Equipment	3.1	7.6	-4.6	0.2	8.6
Residential Investment	102.8	42.5	-8.3	36.1	14.2
			1982	1983	1984
Change in Inventories	$-36.3b.	$3.0b.	$-23.8b.	$-4.3b.	$12.0b.
Net Exports of Goods and Services	$19.6b.	$-0.6b.	$20.5b.	$-1.4b.	$-10.4b.
			1981-1982	1982-1983	1983-1984
Government Purchases	-0.3%	7.4%	8.5%	7.5%	7.9%
Federal	-6.4	9.8	12.7	10.7	12.0
Defense	13.1	14.9	16.2	15.2	15.0
Other	-39.0	-2.5	5.5	0.4	4.1
State & Local	4.3	5.7	5.8	5.4	5.0
Corporate Profits Before Tax	3.7*	20.9*	-24.6	17.7	21.0
Corporate Profits After Tax	-2.0*	18.2*	-22.4	15.4	22.1
Plant and Equipment Expenditures	-12.3	10.0	-1.6	-3.4	10.7
Real Final Sales#	1.3	1.8	-0.5	2.3	4.0
Real Disposable Personal Income	2.2	4.6	1.1	2.9	4.4

Economic Indicators	Recent Data Mar.	Apr.	May	Actual 1981-1982	Forecast 1982-1983	Forecast 1983-1984
Consumer Price Index**	1.2%	7.2%	6.0%	3.9%	3.8%	4.2%
Producer Price Index for Finished Goods**	-1.2	-1.2	3.6	3.5	2.8	4.3
Industrial Production	15.6	24.0	13.2	-8.2	4.7	8.1
Retail Sales##	2.3	1.7	2.1	2.7	8.0	7.6
				1982	1983	1984
Auto Sales (millions of units, a.r.)	8.2	8.4	8.9	8.1	9.0	9.8
Housing Starts (millions of units, a.r.)	1.61	1.50	1.79	1.06	1.65	1.85
Unemployment Rate	10.3	10.2	10.1	9.7	10.0	9.2
Merchandise Trade Deficit (a.r.)	$43.6b.	$55.2b.	$82.9b.	$42.7b.	$63.0b.	$75.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

#GNP less change in inventories, both in real terms.
##Monthly percent changes are not annualized.
$b. = billions a.r. = annual rate F = Forecast

*Year-over-year percent changes.
**Annual percent changes are December to December (not seasonally adjusted).

@ Fixed weight price index up 3.3% in 1Q 1983; may be somewhat higher in 2Q 1983.

July 5, 1983

Economic Outlook

8/22/83

B4750-2

Irving Trust

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Economic Research &
Planning Division

August 1983

The recent performance of the U.S. economy has been stellar: fast growth, low inflation, strong gains in productivity, and substantial increases in employment. Although such favorable developments are normal in the early stages of a business recovery, they are welcome nonetheless, especially in consideration of the formidable problems that still beleaguer the economy. Real GNP is expected to advance by a substantial 6.4% annual rate in the third quarter following the second quarter's 8.7% rise. The economy is then expected to grow at a significantly slower rate for a few quarters thereafter.

As had been widely anticipated, the recovery is being led by the consumer and housing sectors, with a big boost from the abatement of inventory liquidation. During the first six months of this recovery, these three factors made a greater than normal contribution to real GNP growth compared to earlier recoveries. Net exports, however, have shown marked weakness. The combined result is that real GNP has increased at a slightly slower than average rate, while industrial production has been right on track with prior recoveries. As a result, the recovery is indeed proving to be moderate, notwithstanding the second quarter's zippy performance. Our forecast is that from now through 1984 real GNP will rise on average at a 4.8% annual rate, quite close to the average increase at comparable stages of prior recoveries.

To a considerable extent, the surge in retail sales beginning this past spring represented the release of pent-up demand carried over from the recession. This effect is necessarily transitory. In addition, the initial shift from inventory liquidation to inventory restocking provides an important contribution to real GNP growth; but once inventories are rising, they typically provide relatively less thrust. Economic growth will also likely slow in response to the recent increases in interest rates and potential further increases--our guess is not more than 100 basis points--during the next few months as the Federal Reserve continues to try to pull M1 back into (the new) target range.

As an indication of the importance of interest-sensitive sectors in this recovery, two-thirds of the second quarter's 5.5% annualized increase in real final sales (real GNP less the change in inventories) was due to increases in residential construction and auto sales. Conventional mortgage rates are already back up to 14%, from 12.5% a few months ago, and could continue to edge higher. If mortgage rates remain near these levels, housing starts will likely fall by late this year to about 1.5 million units (at an annual rate) from the recent level of 1.75 million. Auto sales would also be vulnerable to further increases in short rates, but to a much lesser degree than housing. Both auto sales and housing starts would recover next year, however, after interest rates drift lower as a consequence of the slowing in economic growth and the (hoped for) improvement in M1's behavior. Despite the likely occurrence of slower growth within the next six months, however, the striking development so far this year has been the economy's vibrancy, not its weakness.

Bernard Schoenfeld

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Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual				Forecast				Actual	Forecast	
	1983		1983		1984				1981-	1982-	1983-
	I	II	III	IV	I	II	III	IV	1982	1983	1984
Gross National Product	8.2	13.5	10.5	7.3	6.8	9.7	9.4	10.5	4.0	7.5	8.9
Real GNP	2.6	8.7	6.4	3.5	2.5	5.5	4.9	5.8	-1.9	2.9	4.6
GNP Price Deflator	5.5	4.5	3.9	3.6	4.2	4.0	4.3	4.4	6.0	4.5	4.1

	Actual	Forecast	Actual	Forecast	
	1983: II	1983:III	1981-1982	1982-1983	1983-1984
Consumer Spending	16.0%	11.1%	7.3%	9.0%	8.5%
Durable Goods	34.0	15.3	3.5	14.2	8.6
Nondurable Goods	12.2	9.6	3.7	5.9	6.4
Services	14.6	11.2	11.2	10.2	10.0
Business Capital Spending	3.9	4.1	-1.1	-2.9	10.5
Structures	-14.8	-7.9	6.4	-9.9	3.0
Equipment	17.7	12.1	-5.7	1.9	15.0
Residential Investment	68.5	13.2	-13.0	37.7	16.1
			1982	1983	1984
Change in Inventories	$-10.6b.	$3.0b.	$-24.5b.	$-9.8b.	$12.5b.
Net Exports of Goods and Services	$-12.5b.	$-22.0b.	$17.4b.	$-12.4b.	$-34.0b.
			1981-1982	1982-1983	1983-1984
Government Purchases	3.5%	8.3%	9.0%	6.5%	7.6%
Federal	1.9	14.6	12.9	8.6	11.4
Defense	16.3	14.6	16.5	14.2	14.3
Other	-28.3	15.1	5.4	-4.2	3.8
State & Local	4.6	4.2	6.6	5.2	4.9
Corporate Profits Before Tax	11.1*F	20.0*	-23.3	15.4	18.0
Corporate Profits After Tax	10.8*F	19.6*	-20.1	13.7	18.7
Plant and Equipment Expenditures	-12.3	7.9	-1.6	-4.6	12.3
Real Final Sales#	5.5	4.5	-0.7	2.5	4.0
Real Disposable Personal Income	3.0	6.8	0.5	2.9	4.7

Economic Indicators	Recent Data			Actual	Forecast	
	Apr.	May	June	1981-1982	1982-1983	1983-1984
Consumer Price Index**	7.2%	6.0%	2.4%	3.9%	3.6%	4.2%
Producer Price Index for Finished Goods**	-1.2	3.6	6.0	3.5	2.0	4.0
Industrial Production	22.8	13.2	13.2	-8.2	5.3	8.8
Retail Sales##	2.3	3.1	0.7	2.7	9.3	8.4
				1982	1983	1984
Auto Sales (millions of units, a.r.)	8.4	8.9	9.6	8.1	9.1	9.9
Housing Starts (millions of units, a.r.)	1.51	1.80	1.75	1.06	1.64	1.68
Unemployment Rate	10.2	10.1	10.0	9.7	9.8	8.9
Merchandise Trade Deficit (a.r.)	$55.2b.	$82.9b.	$59.5b.	$42.7b.	$66.3b.	$85.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

August 9, 1983

#GNP less change in inventories, both in real terms.
##Monthly percent changes are not annualized.
*Year-over-year percent changes.
**Annual percent changes are December to December (not seasonally adjusted).

$b. = billions a.r. = annual rate F = Forecast

Economic Outlook

9/20/83

B4750-2

Irving Trust

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Economic Research & Planning Division

September 1983

The economy is still moving ahead briskly, but at a slower pace than during the second quarter. Real GNP in the current quarter is expected to rise at about a 6.2% annual rate, compared to the second quarter's heady 9.2% gain. Real growth is then expected to taper off for a few quarters before picking up speed once again. Our forecast calls for a 5.3% increase in real GNP from the fourth quarter of last year to the fourth quarter of this year and a comparable increase of 4.7% during 1984.

Some recent reports have raised questions about the momentum of the recovery. In particular, retail sales were flat in July following month-to-month increases of 2.3% in April and 3.1% in May. A slowdown in sales following unsustainable annualized increases of roughly 30% is perfectly normal and appropriate. Even with the slowdown, retail sales in July were still 10.3% above the year-earlier level and about 8% higher in real terms.

The consumer seemed to take a siesta during this summer's intense heat wave. Although the retail sales data are adjusted to remove normal seasonal patterns, the effect of the unusually hot weather was nonetheless apparent. Sales at department stores and apparel stores declined on a month-to-month basis, while sales at furniture and appliance stores (which sell air conditioners) rose sharply. This pattern probably persisted in August, but nonauto retail sales will likely perk up later in the fall. The tax cuts accompanied by modest inflation will support growth in real disposable personal income, while consumer confidence should remain positive.

Domestic auto sales are expected to remain roughly in the range of 7.0-7.5 million units at an annual rate. Recently, sales have been hurt by shortages of popular cars. Dealers' inventories in July represented only 48 days' supply, an unusually low level. Sales will likely improve as 1984 models become available, but the gains may be limited by potential (modest) increases in interest rates. (Of course, subsidized financing could be revived if necessary.) We expect domestic auto sales to total 6.9 million units this year and 7.4 million units in 1984.

Business investment is normally slow in reviving following a recession, and in this respect--as in many others--this recovery is proving quite normal. As of July, for example, production of business equipment had risen 5.1% at an annual rate since the trough last November, compared to an average rise of 5.5% in prior recoveries. This improvement has not been felt evenly among all capital goods producers, however. Real business investment in office equipment (mainly computers) hit a record high level last quarter and has increased at an impressive 24.0% annual rate since the fourth quarter of last year. In contrast, although real investment in metalworking machinery is now rising, the second quarter's level was still 45.0% below the prior peak, and the backlog of machine tool orders remains at depression levels. With the rate of capacity utilization now about 76% and likely to continue rising and with profits rebounding sharply, overall capital spending will continue to improve, though certain segments of the capital goods industry will continue to experience weak demand. We expect real equipment investment to rise about 3% this year and 12% next year, compared to a decline of 7.5% in 1982.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual				Forecast				Actual	Forecast	
	1983		1983		1984				1981-	1982-	1983-
	I	II	III	IV	I	II	III	IV	1982	1983	1984
Gross National Product	8.2	13.0	10.2	7.2	7.0	9.8	9.4	10.8	4.0	7.4	8.9
Real GNP	2.6	9.2	6.2	3.5	2.5	5.6	4.9	5.9	-1.9	3.0	4.6
GNP Price Deflator	5.5	3.5	3.7	3.6	4.4	4.0	4.3	4.6	6.0	4.2	4.0

	Actual	Forecast	Actual	Forecast	
	1983: II	1983:III	1981-1982	1982-1983	1983-1984
Consumer Spending	15.4%	8.8%	7.3%	8.6%	8.8%
Durable Goods	33.8	15.0	3.5	14.2	9.9
Nondurable Goods	11.3	9.2	3.7	5.8	7.3
Services	14.1	6.8	11.2	9.4	9.6
Business Capital Spending	4.7	6.5	-1.1	-2.5	11.2
Structures	-15.6	-8.0	6.4	-10.1	3.8
Equipment	19.8	16.0	-5.7	2.7	15.6
Residential Investment	73.3	25.6	-13.0	40.1	9.6
			1982	1983	1984
Change in Inventories	$-11.9b.	$5.0b.	$-24.5b.	$-9.3b.	$13.3b.
Net Exports of Goods and Services	$-12.3b.	$-22.0b.	$17.4b.	$-12.3b.	$-34.0b.
			1981-1982	1982-1983	1983-1984
Government Purchases	2.8%	8.8%	9.0%	6.5%	7.6%
Federal	-1.2	14.6	12.9	8.0	11.2
Defense	11.8	14.6	16.5	13.3	14.0
Other	-28.3	15.1	5.4	-4.2	3.8
State & Local	5.5	5.0	6.6	5.4	5.1
Corporate Profits Before Tax	11.4*	18.7*	-23.3	14.2	21.6
Corporate Profits After Tax	5.7*	18.3*	-20.1	11.2	23.8
Plant and Equipment Expenditures	7.9F	10.3	-1.6	-2.1	10.6
Real Final Sales#	5.9	3.9	-0.7	2.5	4.1
Real Disposable Personal Income	3.3	7.4	0.5	3.0	4.8

Economic Indicators	Recent Data			Actual	Forecast	
	May	June	July	1981-1982	1982-1983	1983-1984
Consumer Price Index**	6.0%	2.4%	4.8%	3.9%	3.9%	4.3%
Producer Price Index for Finished Goods**	3.6	6.0	1.2	3.5	2.0	4.3
Industrial Production	15.6	13.2	21.6	-8.2	5.8	9.1
Retail Sales##	3.1	0.3	0.0	2.7	9.0	8.9
				1982	1983	1984
Auto Sales (millions of units, a.r.)	9.1	10.1	9.7	8.0	9.3	10.0
Housing Starts (millions of units, a.r.)	1.81	1.75	1.74	1.06	1.67	1.69
Unemployment Rate	10.1	10.0	9.5	9.7	9.8	8.9
Merchandise Trade Deficit (a.r.)	$82.9b.	$59.5b.	$76.3b.	$42.7b.	$66.3b.	$85.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

August 30, 1983

#GNP less change in inventories, both in real terms.
##Monthly percent changes are not annualized.
*Year-over-year percent changes.
**Annual percent changes are December to December (not seasonally adjusted).
$b. = billions a.r. = annual rate F = Forecast

Economic Outlook

10/17/83

B4750-2

Irving Trust

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Economic Research & Planning Division

October 1983

Now that the economic recovery is about a year old, it is time to assess its condition and offer a prognosis on its future performance. Overall, the recovery is turning out to be quite normal in that real GNP, industrial production, and other major indicators are closely tracking averages of prior recoveries. A continuation of this pattern is expected. Real GNP is projected to rise 4.7% from the fourth quarter of this year to the fourth quarter of next year, quite close to the average comparable gain in prior recoveries. Given the experience of the past few years, however, people are still anxious about whether the economy's existing and potential ailments may interfere with the recovery's further progress. Let's consider some of these concerns.

Will interest rates rise as recovery continues? With the glaring exception of the 1980 recovery, interest rates usually trend downward for 1-1½ years after a recession, with one or two mini-cycles scattered in between. This decline in rates is partially a reflection of a general improvement in corporate liquidity. Typically, corporate profits rebound sharply, while dividend increases lag the improvement in profits, so retained earnings show even larger gains. At the same time, new financing requirements are not heavy since corporations are still hesitant to boost capital spending. All of these things are happening now except that the 1981 legislation shortening depreciation lives for tax purposes is producing greater than normal improvement in cash flow. To the extent there will be upward pressure on interest rates, it will probably be associated with excessive growth in the monetary aggregates. On average, interest rates next year are expected to be lower than current levels. By late in the year, however, cyclical considerations will likely be working to produce upward interest rate pressure.

But what about crowding out? Don't the huge Federal government deficits matter? The crowding out argument gained prominence in 1975 when forecasts of sharp increases in interest rates appeared. Rates fell instead. As in 1975 and 1976, the current deficits represent in part an automatic response to an economic contraction and its aftershocks. As the expansion matures, however, and the deficits shift from being passive to active, the potential for more intense competition for funds--and higher interest rates--increases. In any case, real interest rates are still relatively high and will likely remain so, given the probable budget outlook.

Don't high real interest rates keep the dollar strong? Yes, but of course factors other than real interest rates also matter. On a trade-weighted basis, the dollar appreciated 55% from July 1980 to August 1983. Even with the possibility of further moderate depreciation next year--the dollar has already fallen from its recent high--the dollar will remain strong enough to continue to be a major source of angst for many U.S. exporters, and particularly capital goods producers.

In sum, despite all the problems besetting it, the economy is following the path of a normal recovery. Part of the "normal" experience, however, is that there are usually a few surprises along the way.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual							Forecast	Actual	Forecast	
	1983		1983					1984	1981-	1982-	1983-
	I	II	III	IV	I	II	III	IV	1982	1983	1984
Gross National Product	8.2	13.3	10.0	7.2	7.0	9.8	9.4	10.8	4.0	7.4	8.9
Real GNP	2.6	9.7	6.6	3.5	2.5	5.6	4.9	5.9	-1.9	3.1	4.7
GNP Price Deflator	5.5	3.3	3.2	3.6	4.4	4.0	4.3	4.6	6.0	4.1	4.0

	Actual	Forecast	Actual	Forecast	
	1983: II	1983:III	1981-1982	1982-1983	1983-1984
Consumer Spending	15.1%	6.6%	7.3%	8.2%	8.6%
Durable Goods	33.2	6.9	3.5	13.3	9.0
Nondurable Goods	12.1	6.8	3.7	5.5	7.2
Services	13.0	6.4	11.2	9.1	9.4
Business Capital Spending	5.2	8.8	-1.1	-2.2	11.6
Structures	-15.6	-4.6	6.4	-9.7	4.8
Equipment	20.5	18.0	-5.7	3.0	15.7
Residential Investment	77.1	41.3	-13.0	43.6	10.6
			1982	1983	1984
Change in Inventories	$-14.5b.	$7.0b.	$-24.5b.	$-9.5b.	$12.3b.
Net Exports of Goods and Services	$-8.5b.	$-20.0b.	$17.4b.	$-9.4b.	$-23.0b.
			1981-1982	1982-1983	1983-1984
Government Purchases	3.6%	9.3%	9.0%	6.7%	6.8%
Federal	0.3	14.1	12.9	8.3	9.8
Defense	10.7	17.7	16.5	13.5	12.4
Other	-22.2	4.9	5.4	-3.5	2.9
State & Local	5.8	6.2	6.6	5.6	4.7
Corporate Profits Before Tax	13.7*	24.3*	-23.3	18.0	21.0
Corporate Profits After Tax	8.3*	25.8*	-20.1	16.0	23.9
Plant and Equipment Expenditures	0.6	9.4	-1.6	-5.8	10.3
Real Final Sales#	6.8	3.9	-0.7	2.7	4.1
Real Disposable Personal Income	3.5	7.2	0.5	3.0	4.4

Economic Indicators	Recent Data			Actual	Forecast	
	June	July	August	1981-1982	1982-1983	1983-1984
Consumer Price Index**	2.4%	4.8%	4.8%	3.9%	3.9%	4.3%
Producer Price Index for Finished Goods**	6.0	1.2	4.8	3.5	1.6	4.3
Industrial Production	15.6	24.0	10.8	-8.2	6.1	9.3
Retail Sales##	0.8	-0.2	-1.4	2.7	8.9	9.4
				1982	1983	1984
Auto Sales (millions of units, a.r.)	10.1	9.7	8.9	8.0	9.3	10.0
Housing Starts (millions of units, a.r.)	1.74	1.79	1.94	1.06	1.73	1.75
Unemployment Rate	10.0	9.5	9.5	9.7	9.8	8.8
Merchandise Trade Deficit (a.r.)	$55.9b.	$76.3b.	$86.2b.	$42.7b.	$71.0b.	$85.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

October 11, 1983

#GNP less change in inventories, both in real terms.
##Monthly percent changes are not annualized.
*Year-over-year percent changes.
**Annual percent changes are December to December (not seasonally adjusted).
$b. = billions a.r. = annual rate F = Forecast